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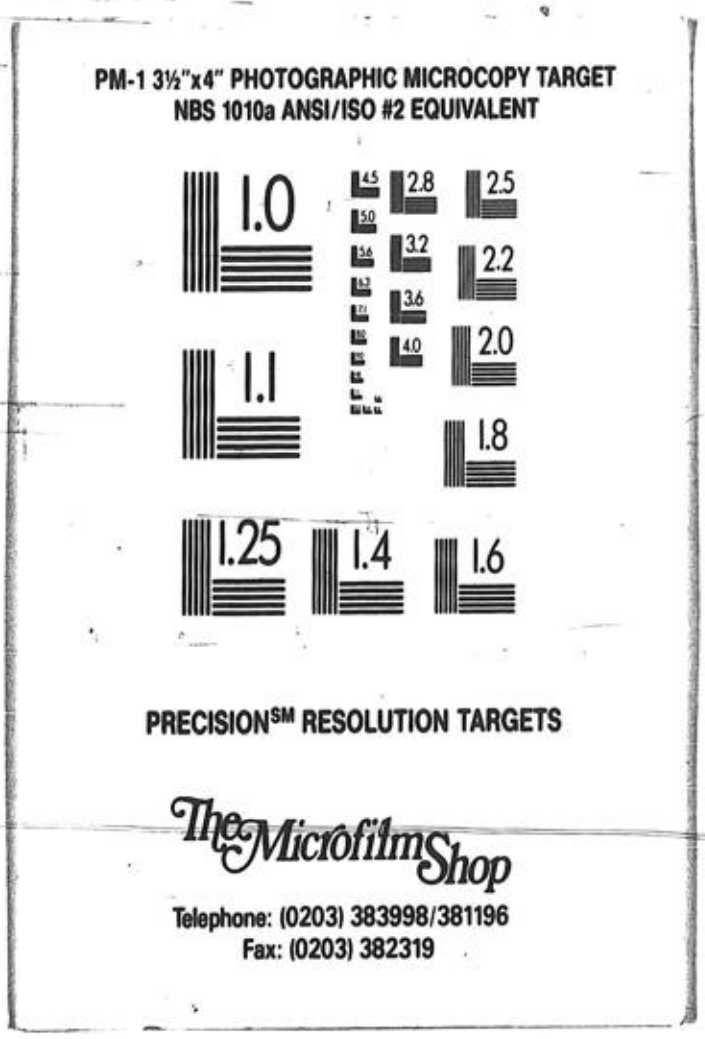

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Contains the Originals of letters from the Indian Finance Minister to the Chancellor of the Exchequer 8 February 1952 and

Carbon Copies of letters from the Chancellor of the Exchequer to the Indian Finance Minister.

Cmd 8472

DO 118/83

[redacted]. Treasury Chambers,
Great George Street, S.W.

8 February, 1952.

My dear Minister,

As a result of the consultation provided for in paragraph 7 of Sir Stafford Cripps' letter of 9th July, 1948, to the Hon. Mr. Chetty which extended the Agreement signed in London on 14th August, 1947, (hereinafter called the "Principal Agreement") between the Government of the United Kingdom and the Government of India, the following arrangements have been agreed upon between our two Governments for the extension of the Principal Agreement:-

1. The Principal Agreement, as modified by Sir Jeremy Raisman's letter of 15th February, 1948, to Mr. Narahari Rao and as further modified by Sir Stafford Cripps' letter of 9th July, 1948, to which I have referred above, and by this letter, shall be extended to 30th June, 1957.

/2.

Hon. Sir Chinteman Deshmukh

2. There shall be transferred forthwith from the No. 2 Ac nt to the No. 1 Account the sum of £310 million, to be held by the Reserve Bank of India as a currency reserve. It is the intention of the Government of India not to draw upon this sum, and it agrees not to do so without previous consultation with the Government of the United Kingdom.

3. The balance from time to time standing to the credit of the No. 2 Account, after the transfer provided for in paragraph 2 above has been made, shall be transferred to the No. 1 Account in instalments not exceeding £35 million in each of the six periods of twelve months beginning 1st July, 1951, subject to the following provisions:-

(a) Transfers shall only take place as may be necessary to maintain a minimum balance on the No. 1 Account of £340 million or such lesser sum as may be agreed between the two Governments as a result of any consultation which may take place under the provisions of paragraph 2 above.

/(b)

(b) Any part of the £35 million transferable in any period of twelve months not transferred during that period shall be carried forward and added to the sums available for transfer, subject to (a) above, during the later periods.

(c) If it should appear to the Government of India that in any particular period of twelve months requirements for sterling from No. 2 Account are likely to exceed £35 million, the transfers due in the next subsequent period may be anticipated to the extent of £5 million, and may be made subject to (a) above without further consultation between the two Governments. If the Government of India consider that anticipation to a greater extent is necessary, the two Governments shall consult together with a view to providing for such further anticipation of transfers as may be appropriate.

(d) The transfers referred to in the above paragraphs shall not include the transfers provided for in Articles IV (2) and VIII of the Principal Agreement as extended by subsequent exchanges of letters.

/(e)

(e) Any balance standing to the credit of the No. 2 Account on 30th June, 1957, shall be transferred automatically to the No. 1 Account.

4. If at any time during the period covered by this exchange of letters transfers from the No. 2 Account to the No. 1 Account appear to be taking place at a rate significantly higher than is consistent with the agreed annual rate, either Government shall have the right to ask that the position should be discussed between the two Governments.

5. The existing understanding regarding hard currency expenditure arrived at during the Commonwealth Finance Ministers' conference of September, 1950 will be continued subject to such modifications as may be agreed between the two Governments.

6. Further consultations shall take place before the termination of the Principal Agreement as extended by this letter with a view to extending it further or replacing it by another agreement or agreements.

7. I shall be grateful to have your confirmation that this letter sets out the understanding reached between us and that together with your reply it constitutes an extension of the Principal Agreement.

Yours sincerely,
R.A. Butler

India House,
Aldwych,
London, W.C.2.

8 February, 1952

My dear Chancellor,

I have to acknowledge receipt of your letter of today's date, reading as follows:

"As a result of the consultation provided for in paragraph 7 of Sir Stafford Cripps' letter of 9th July, 1948, to the Hon. Mr. Chetty which extended the Agreement signed in London on 14th August, 1947, (hereinafter called the "Principal Agreement") between the Government of the United Kingdom and the Government of India, the following arrangements have been agreed upon between our two Governments for the extension of the Principal Agreement:-

1. The Principal Agreement, as modified by Sir Jeremy Raisman's letter of 15th February, 1948, to Mr. Narahari Rao and as further modified by Sir Stafford Cripps' letter of 9th July, 1948, to which I have referred above, and by this letter, shall be extended to 30th June, 1957.

/2.

The Rt. Hon. R. A. Butler, M.P.

2. There shall be transferred forthwith from the No. 2 Account to the No. 1 Account the sum of £310 million, to be held by the Reserve Bank of India as a currency reserve. It is the intention of the Government of India not to draw upon this sum, and it agrees not to do so without previous consultation with the Government of the United Kingdom.

3. The balance from time to time standing to the credit of the No. 2 Account, after the transfer provided for in paragraph 2 above has been made, shall be transferred to the No. 1 Account in instalments not exceeding £35 million in each of the six periods of twelve months beginning 1st July, 1951, subject to the following provisions:-

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/(b)

(b) Any part of the £35 million transferable in any period of twelve months not transferred during that period shall be carried forward and added to the sums available for transfer, subject to (a) above, during the later periods.

(c) If it should appear to the Government of India that in any particular period of twelve months requirements for sterling from No. 2 Account are likely to exceed £35 million, the transfers due in the next subsequent period may be anticipated to the extent of £5 million, and may be made subject to (a) above without further consultation between the two Governments. If the Government of India consider that anticipation to a greater extent is necessary, the two Governments shall consult together with a view to providing for such further anticipation of transfers as may be appropriate.

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(e) Any balance standing to the credit of the No. 2 Account on 30th June, 1957, shall be transferred automatically to the No. 1 Account.

4. If at any time during the period covered by this exchange of letters transfers from the No. 2 Account to the No. 1 Account appear to be taking place at a rate significantly higher than is consistent with the agreed annual rate, either Government shall have the right to ask that the position should be discussed between the two Governments.

5. The existing understanding regarding hard currency expenditure arrived at during the Commonwealth Finance Ministers' conference of September, 1950 will be continued subject to such modifications as may be agreed between the two Governments.

/6.

6. Further consultations shall take place before the termination of the Principal Agreement as extended by this letter with a view to extending it further or replacing it by another agreement or agreements.

7. I shall be grateful to have your confirmation that this letter sets out the understanding reached between us and that together with your reply it constitutes an extension of the Principal Agreement."

I have pleasure in confirming that the understanding of your Government, as set out in that letter, is accepted by my Government.

Yours sincerely
C. D. Deshmukh

Treasury Chambers,

Great George Street, S.W.

CONFIDENTIAL

8 February 1952.

My dear Minister,

During the recent consultations between our two Governments regarding the extension of the Financial Agreement of the 14th August 1947, we discussed the treatment of transfers between the sterling accounts with the Bank of England of the Reserve Bank of India and of the State Bank of Pakistan.

2. The following paragraphs set out the intentions of my Government in regard to this matter:-

(a) Any capital transfers between India and Pakistan as may be agreed between the two Governments would be made between the No.2 Accounts of the two countries.

(b) Any transfers of No.1 Account sterling due from India to Pakistan in respect of periods before 1st July 1951 and not made before that date will be provided for by transfers from the No.2 Account to the No.1 Account of the Reserve

The Hon. Mr. Chintaman Deshmukh

Reserve Bank of India additional to those provided for in my letter of today's date extending the Financial Agreement between our two Governments.

(c) No sterling payments from India to Pakistan in respect of current transactions, apart from those mentioned in (b), will be made the subject of a claim for transfers from No.2 Account additional to those provided for in my letter of today's date extending the Financial Agreement between our two Governments.

3. I should be grateful to have your confirmation that the above paragraphs set out the intentions of your Government also.

Yrs sincerely

R.A. BUTLER

India House,
Aldwych,
London, W.C.2.

Confidential

8 February, 1952.

My dear Chancellor,

I have to acknowledge receipt of your letter of today's date reading as follows:

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(a) Any capital transfers between India and Pakistan as may be agreed between the two Governments would be made between the No. 2 Accounts of the two countries.

(b) Any transfers of No.1 Account sterling due from India to Pakistan in respect of periods before 1st July, 1951, and not made before that date will be provided for by transfers from the No.2 Account to the No.1 Account of the Reserve Bank of

The Rt. Hon. R.A. Butler M.P.

India additional to those provided for in my letter of to-day's date extending the Financial Agreement between our two Governments.

(c) No sterling payments from India to Pakistan in respect of current transactions, apart from those mentioned in (b), will be made the subject of a claim for transfers from No.2 Account additional to those provided for in my letter of to-day's date extending the Financial Agreement between our two Governments.

3. I should be grateful to have your confirmation that the above paragraphs set out the intentions of your Government also."

I have pleasure in confirming that the understanding of your Government, as set out in that letter, is accepted by my Government.

Yours sincerely
C. D. Deshmukh

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Treasury Chambers,
Great George Street, S.W.
8 February 1952.

CONFIDENTIAL

My dear Minister,

I am writing with reference to certain matters which have been the subject of letters exchanged between representatives of our two Governments at the conclusion of the Financial Agreement of August 1947 and its subsequent renewals. It is understood that it is the intention of the two Governments that the arrangements set out in the letters exchanged between Sir Wilfrid Eady and Mr. Narahari Rao of 14th August 1947 regarding the Silver Redemption Reserve and Indian private sterling balances, as extended by the letter from Sir Henry Wilson Smith to Mr. A.K. Chanda of 9th July 1948, should remain in force for the extended period of the Agreement, i.e. up to 30th June 1957. The letters exchanged on the same date regarding the rate of interest to be earned on the sterling balances of the Reserve Bank of India will not be renewed. It is noted, however, that the

The Hon. Sir Chintaman Deshmukh.

the Governors of the Bank of England and of the Reserve Bank of India have already corresponded on this subject.

I should be grateful if you would confirm that I have correctly recorded our understanding.

Yours sincerely,

R.A. Butler

India House
Aldwych
London, W.C.2.

8 February 1952

Confidential

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The Rt. Hon. R. A. Butler, M.P.

I should be grateful if you would confirm that I have correctly recorded our understanding."

I have pleasure in confirming that the understanding of your Government, as set out in that letter, is accepted by my Government.

Yours sincerely
C. D. Deshmukh

Treasury Chambers,
Great George Street, S.W.

CONFIDENTIAL

8 February 1952

My dear Minister

I should like to suggest that during the extended period of the Financial Agreement the Bank of England and the Reserve Bank of India should continue the statistical procedure at present in force in relation to India's hard currency receipts and expenditure and that they should consult together as to any modifications that may be necessary or desirable from time to time.

I should be grateful if you would confirm that you agree with this suggestion.

Yours sincerely

R A Butler

The Hon. Sir Chintaman Deshmukh.

India House,
Aldwych,
London, W.C.2.

8 February 1952

Confidential

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Yours sincerely
C. D. Deshmukh

The Rt. Hon. R.A. Butler M.P.

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TREASURY CHAMBERS,

GREAT GEORGE STREET,

S.W.1.

8th February, 1952.

Confidential

My dear Minister,

With reference to our discussions about certain matters which have been the subject of letters exchanged between representatives of our two Governments at the conclusion of the Financial Agreement of August, 1947 and its subsequent renewals, I am writing to place on record our understanding that the arrangements relating to the sterling pensionary obligations of India contained in Sir Stafford Cripps' two letters to Mr. R.K. Shanmukham Chetty of 9th July, 1948, shall continue to be operative.

As you are aware, our two Governments have been giving further consideration to the Sterling pension arrangements and we may wish in the near future to be putting forward proposals in this connection. It may therefore be desirable to place it on record that such proposals, if acceptable to your Government, might entail a revision of the foregoing arrangement.

Yours sincerely,

(Sgd.) R.A. BUTLER

The Hon. Sir Chintaman Deshmukh.

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India House
Aldwych
London, W.C.2.

8 February, 1952.

CONFIDENTIAL

My dear Chancellor,

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/I have

The Rt. Hon. R. A. Butler, M.P.

I have pleasure in confirming that the understanding of your Government, as set out in that letter, is accepted by my Government.

Yours sincerely
C. D. Deshmukh

CONFIDENTIAL

Treasury Chambers,
Great George Street, SW1
8 February 1952.

My dear Minister

Although Article VII of the Financial Agreement refers only to transfer of capital between India and other Scheduled Territories, our understanding is that this Article should be regarded administratively as if it were extended to apply equally to transfers of capital between India and Norway, Sweden and Denmark.

I should be grateful to have your confirmation that you agree with this understanding.

Yours sincerely

R.A. Butler

The Hon. Sir Chintaman Deshmukh.

India House,
Aldwych,
London, W.C.2.

Confidential — 8 February 1952

My dear Chancellor,

I have to acknowledge receipt of your letter of today's date reading as follows:

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Yours sincerely
C. D. Deshmukh

The Rt. Hon. R.A. Butler M.P.

India House,
Aldwych,
London, W.C.2.

8 February, 1952

My dear Chancellor,

With reference to Article VII of the Financial Agreement between the Government of the United Kingdom and the Government of India of 14th August, 1947 as extended by the letters exchanged today I write to say that, if the acceptance by residents of any country of sterling at the disposal of residents of India is in any way restricted in settlement of payments for current transactions, the Government of India continue to hold themselves free to restrict the acceptance by residents of India of sterling at the disposal of residents of that country.

Yours sincerely,

C. D. Deshmukh

The Rt. Hon. R. A. Butler, M.P.

Treasury Chambers,

Great George Street, S.W.

Confidential

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I have pleasure in confirming that the understanding of your Government, as set out in that letter, is accepted by my Government.

Yours sincerely

R A Butler

The Hon. Sir Chintaman Deshmukh

Treasury Chambers

Great George Street, SW.

CONFIDENTIAL

8 February 1952.

My dear Minister,

During the recent consultations between our two Governments regarding the extension of the Financial Agreement of the 14th August 1947, we considered the position which might arise as a result of any repurchase of Indian currency from the International Monetary Fund.

2. My understanding is that, should any such repurchase take place, it is the intention of your Government to consult my Government about the need for additional transfers from the No.2 to the No.1 Account.

3. Should the United Kingdom Government decide to repurchase United Kingdom currency from the International Monetary Fund, it was understood between us that it would be the intention of my Government to hold previous consultation with your Government, with particular regard to the desirability of a simultaneous repurchase of Indian currency by the Government of India.

4.

The Hon. Sir Chintaman Deshmukh.

4. I shall be glad to have your confirmation that this is the intention of your Government.

Yours sincerely,

R. A. Butler

India House,
Aldwych,
London, W.C.2.

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8 February, 1952.

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The Rt. Hon. R.A. Butler, M.P.

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Yours sincerely
C. D. Deshmukh